

THE POLITICAL ECONOMY OF PETROL AND DIESEL

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ABSTRACT

Over the periods, it can be seen that in India the fuel price (petrol, diesel etc.) is being regulated by the government. Petrol and diesel prices are increased. Nowadays we could meet so many problems. Below poverty people couldn't manage their wealth. Petrol and diesel prices have gone up so high. An HT analysis published on June 24 showed that the gap between retail prices. In the Covid 19 pandemic many people affected their poverty. This is because of an increase in taxes on petrol and diesel. Tax high problem is to be fixed in Petrol and Diesel prices, it has become a major political issue other opposition parties in India are demanding a huge reduction in taxes to ruling party.

KEYWORDS: Fuel Price, Tax High, Ruling Party

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INTRODUCTION

Fuel is the most important factor in our day to day life. Every year April 1 and July 1 the share of state and central taxes in Petrol and diesel prices are increased. Nowadays we could meet so many problems. Below poverty, people couldn't manage their wealth.

Petrol and diesel prices have gone up so high. An HT analysis published on June 24 showed that the gap between retail prices. In the Covid 19 pandemic situation so many people were affected. This is because of an increase in taxes on petrol and diesel. In this situation, some political issues have been raised since March 2020. Average people using two wheelers and four wheelers couldn't face financial power.

Fixation Depends upon Petrol and Diesel Prices in New Delhi every year of 1st April and 1st July

The problem of high tax is to be fixed at Petrol and Diesel prices, it has become a major political issue. Other opposition parties in India are demanding a huge reduction in taxes to the ruling party. At present situation, the government of India has fixed and justified the movement of rising tax proceeds are being used for spending on health and hygiene, providing employment and giving people adhoc amount financial security. A common man in India has affected by the hike in Petrol and diesel prices as their consumption has decreased during the lockdown period. Recently, central government of India has reduced the VAT tax in petrol and diesel price, especially in the BJP ruling states. The remarkable diesel rate is reduced in maximum level price is rupees 79.55 per litre in Mizoram. Other opponent political parties issued a problem in high manner. Unlikely we live in a developed country but we have a very small share of Indian own cars. According to the 2011 census, only below 5% of households owned their own car, jeep or van. In the future budget, we expect a large reduction of watt tax and other taxes. So there is some merit to the claim increasing Petrol and diesel prices simultaneously. It doesn't affect ordinary peoples income directly.

Share of Petrol-Diesel in Total MPCE by Decile Class

Monthly per capital expenditure is shown the share of Petrol and diesel in design class. Most of the farmers use diesel as fuel in tractors, harvesting machines and irrigation pumps. One of the most remarkable farmer activist, Raman Sheep Singh, quoted that diesel price hiking might wipe out the benefit of the entire increase in minimum support price. For so many, the cultivation of crops especially paddy takes up to 30 litres of diesel to prepare an acre for cropping and another 70 litres of diesel over the whole season for irrigation of crops. Many farmers use diesel pumps for irrigation purposes at the time the ruling government provided the electricity bill is very subsidised for farmers.

In the transport sector, many poor people are affected by fuel price hiking. According to the 2018 and 2019 PLFS survey 3% of India's workforce is directly employed in the transport sector excluding the railway department. Overall, eleven million people who are employed in the particular sector 69% of people employed remaining 39% are self-employed. Some of the states have a significantly higher share of workers in this particular sector than others.

State-wise Share of Motorised Road Transport in Total Employment

Sharing of motorized road transport at the state level towards employee benefits. Due to Covid 19 pandemic situation lockdown period, it has suffered a huge fall in all revenue by the transport sector. Till 2021, the fear is continued and so many problems came up day to day life using public transport due to the corona virus. Raising fuel prices made worse matters in our life. Poor financial health is certain to affect workers in the economical sector.

The commodities of higher fuel prices made cascading effect in the transport system but the transport operators say that diesel prices comprise around seventy percent of their operational cost.

Fuel prices have a high tax incidence for consumers and transport operators. It contributes to inflation remarkably. The trends between consumers and the government are struggling with the monetary problem.

Perhaps an Indian government has given subsidies on fuels or to reduce the tax burden on consumers and shifts towards stakeholders.

Price-Inelastic Fuel, and factors at Play Right now

Fuel consumption doesn't react to prices because it's an essential good with no or low-grade substitutes. In the short run, the consumer neither has a choice nor can they stop or defer its use.

In economics, such goods are considered to be 'price-inelastic goods'. Essential goods usually fall in this category.

Radhika Pandey, an economist and fellow at the National Institute of Public Finance and Policy, believes this "inelastic" nature of demand is one of the factors why the Union government has been able to cope with the losses it faced due to the pandemic.

"The pandemic has made India's fiscal situation fragile. Direct tax collection has collapsed and at the same time, the government has had to increase expenditure on account of healthcare and other welfare schemes. With no consistent rise of revenues in sight, maintaining fuel taxes remains the only option," she said.

In crisis times like these, this inelasticity is, in fact, helping the government to make up for its losses," Pandey added.

However, it's not as if the inflation in prices is totally irrelevant. During elections, as seen a couple of months ago, the prices are kept in check.

"Evidence from literature supports the argument that there is price inelasticity with fuel prices. However, it will not be appropriate to argue that price inelasticity becomes the motivation for not controlling fuel prices," said Shubham Kumar, assistant professor in the economics department of Dehradun's University of Petroleum and Energy Studies.

According to him, several global factors are at play behind the Narendra Modi government's current reluctance in reducing the petroleum prices.

"India deregulated fuel prices after 2014 when those were very low in the international market. With reforms in queue and welfare schemes at disposal, India began to increase taxes to manage the budget. Now, with the price rise of crude oil and India's economic slowdown, it becomes difficult to reduce higher prices," he told The Print.

Kumar also explained how differences among the suppliers are at odds with managing fuel prices in India.

"UAE's differences with Saudi Arabia against petroleum production have created uncertainties on the supply side. India is trying to seek fuel outside OPEC. India might be waiting for international prices to come down before it starts reducing the overall price — but any cut in taxes seems unlikely in the short run," he added.

The inflation consideration

There is, however, a limit to which the government can allow the petroleum prices to rise, said Kumar.

Petroleum products are input goods, which means a rise in their prices will cause an increase in the prices of goods and services. Hence, uncontrolled prices might push up inflation rates.

The WPI reached an all-time high of 10.49 per cent in May this year, majorly led by fuel and power indices. In May, retail inflation breached the 6 per cent limit set by the Reserve Bank of India.

"Fuel prices have high tax incidence for consumers and, thus, it contributes to inflation significantly. If the trends continue, perhaps there could be reinstating of subsidies on fuels, to reduce the tax burden on consumers and shift it towards other stakeholders," added Kumar.

CONCLUSIONS

Most of the valuable customers and consumers such as farmers and the poor making a living in the passenger transport sector are confirmed, tax reduction or concession can be made through special channels such as credit cards or giving subsidies against vehicle registration certificates. These are the requirements of avoiding inflation in our country. The political issues can be raised regularly although we have the burden on money, the unemployment problem can be solved by the government of India. We can solve the issue of Petrol and diesel hiking prices in the present situation.

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